

MINUTE ITEM

This Calendar Item No. C52 was approved as
Minute Item No. 52 by the California State Lands
Commission by a vote of 3 to 0 at its 02-09-06
meeting.

**CALENDAR ITEM
C52**

A 2

02/09/06
PRC 2908.1
W 40915
J. L. Smith

S 4

**CONSIDER APPROVAL OF THE
LINE WELL AGREEMENT FOR THE PROPOSED UNIT 25-9 WELL,
COMPENSATORY GAS AGREEMENT NO. PRC 2908.1,
NORTH GRIMES AREA OF THE SACRAMENTO RIVER,
COLUSA AND SUTTER COUNTIES**

APPLICANT:

TexCal Energy North Cal L.P.
Attn.: Ms. Tere Myers
1021 Main, Ste. 2500
Houston, TX 77002

AREA, LAND TYPE, AND LOCATION:

Compensatory Royalty Agreement (Gas) No. PRC 2908.1 contains
approximately 640 acres in the vicinity of the North Grimes area of the
Sacramento River, Colusa and Sutter Counties.

BACKGROUND:

Compensatory Royalty Agreement (Gas) No. PRC 2908.1 was issued to Patrick
A. Doheny on June 28, 1962. Pursuant to the Compensatory Royalty
Agreement, Doheny established four (4) operating units, "Operating Unit 25",
"Operating Unit 30", "Operating Unit 31", and "Operating Unit 36". Through
various assignments and name changes, TexCal Energy North Cal L.P. (TexCal)
has been the operator for these agreements since 1965. On October 20, 2005,
California State Lands Commission (Commission) staff received a request from
TexCal to enter into a Line Well Agreement (Agreement) for their proposed Unit
25-9 line well.

A line well is a well drilled close enough to a lease or unit line that it could
potentially drain hydrocarbons from the adjacent lease or unit. The operator of
the lease or unit potentially being drained is required to ensure that no
compensable drainage occurs without the royalty owners being properly

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reimbursed. In order to satisfy this requirement TexCal has proposed a line well agreement between the operator and the royalty owners to allocate production from Unit 25-9 well located near common unit lines.

The proposed Unit 25-9 well will not be drilled on, in, or through State owned lands. It will have a surface location within the boundary of "Operating Unit 25" and drill to a location located within the boundary of "Operating Unit 30". The producing interval will be located within 250 feet of the common unit boundary line between "Operating Unit 25" and "Operating Unit 30". For royalty purposes, the Unit 25-9 well will be deemed to be located on both production units for so long as the well produces gas.

The proposed agreement allocates the entire production stream from the Unit 25-9 well to be shared equally between the two units. The production from the Unit 25-9 well will be allocated 50 percent (50%) to "Operating Unit 25" and 50 percent (50%) to "Operating Unit 30". The State has an ownership interest of 8.767% in "Operating Unit 25" and a 5.758% interest in "Operating Unit 30". The calculated State's ownership interest shall be 7.2625% for gas produced under the Agreement.

Staff has evaluated the proposed Line Well Agreement and has determined the share of the State's pooled interests to be fair and equitable, and believes that it would be in the best interest of the State to accept the terms of the Agreement.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code sections: Division 6, Parts 1 and 2; Division 13.
- B. California Code of Regulations sections: Title 3, Division 3; Title 14, Division 6.

OTHER PERTINENT INFORMATION

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060(c)(3) and 15378.

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2. This Activity involves lands which have NOT been identified as possessing significant environmental values pursuant to Public Resources Code sections 6370, et seq. However, the Commission has declared that all tide and submerged lands are "significant" by nature of their public ownership (as opposed to "environmentally significant"). Since such declaration of significance is not based upon the requirements and criteria of Public Resources Code sections 6370, et seq., use classifications for such lands have not been designated. Therefore, the finding of the project's consistency with the use classification as required by Title 2, California Code of Regulations, section 2954 is not applicable.

EXHIBITS:

- A. Line Well Agreement
- B. Location map PRC 2908.1

PERMIT STREAMLINING ACT DEADLINE:

N/A (not a "development project" subject to the Act)

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDINGS:

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(C)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY THE PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

1. APPROVE THE LINE WELL AGREEMENT FOR WELL #25-9 AND THE STATE'S SHARE OF THE PRODUCTION FROM THE LINE WELL.
2. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENTS NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

EXHIBIT A

LINE WELL AGREEMENT

THIS LINE WELL AGREEMENT is made and entered into as of this ____ day of _____, _____, by and between the undersigned owners of oil and gas royalty interests (collectively "Royalty Owners") and owners of leasehold interests (collectively "Working Interest Owners").

The Working Interest Owners and the Royalty Owners now own all or a portion of the Lessee and Lessor interests under various oil and gas leases (hereinafter "Leases") covering lands in Colusa and Sutter Counties, California. The Leases are described on the attached Exhibit "A".

By Declaration of Pooling dated September 14, 1964, a recorded copy of which may be obtained at Book 324, Pages 157-164 of the Official Records of Colusa County, California, an operating unit was created for the development and production of gas (hereinafter "Operating Unit 25"). By Declaration of Pooling dated October 8, 1964, a recorded copy of which may be obtained in Book 324, Pages 512-518 of the Official Records of Colusa County, California, an operating unit was created for the development and production of gas (hereinafter "Operating Unit 30"). Operating Unit 25 and Operating Unit 30 are hereinafter collectively referred to as the "Producing Units."

The Royalty Owners agree and acknowledge, for purposes of the Leases and the Producing Units, that the Leases are fully developed, that all development obligations under the Leases have been fulfilled, and that no additional drilling is required.

The Working Interest Owners have located a drillsite for the Unit 25-9 Well on Assessor's Parcel Number 017-120-060. The proposed surface location of the well is in T15N-R1W, 1800'N & 900'W from SE/c Section 25. The proposed bottom hole location for the Unit 25-9 Well is in T15N R1E, 2120'N & 250' E from SW/c Section 30.

The Royalty Owners and Working Interest Owners desire to enter into this Line Well Agreement only insofar as it affects their interests, rights, or obligations relative to the Leases and the aforementioned Declarations of Pooling.

In consideration for execution of this Line Well Agreement, its terms, and mutual benefits to be derived from the Line Well Agreement, the sufficiency of which is hereby acknowledged, the Royalty Owners and the Working Interest Owners hereby agree as follows:

- A. For royalty purposes, the production from the Unit 25-9 Well will be allocated fifty percent (50%) to Operating Unit 25 and fifty percent (50%) to Operating Unit 30.

B. For all other purposes, including but not limited to well offset obligations under the Leases, the Unit 25-9 Well is deemed to be located on both of the Production Units for so long as the well produces gas.

C. As of the effective date of this Line Well Agreement, all rents and royalties to be paid under the Leases have been paid, and no default(s) exist relative to the Leases. The Leases, as previously amended and, as amended by this Line Well Agreement, are hereby expressly ratified and confirmed. The terms and provisions of the Leases are and will remain in full force and effect.

This Line Well Agreement may be executed as one instrument or in counterparts, each of which will be construed together and constitute one agreement.

This Line Well Agreement shall bind and inure to the benefit of the undersigned Royalty Owners and Working Interest Owners, their respective heirs, and assigns.

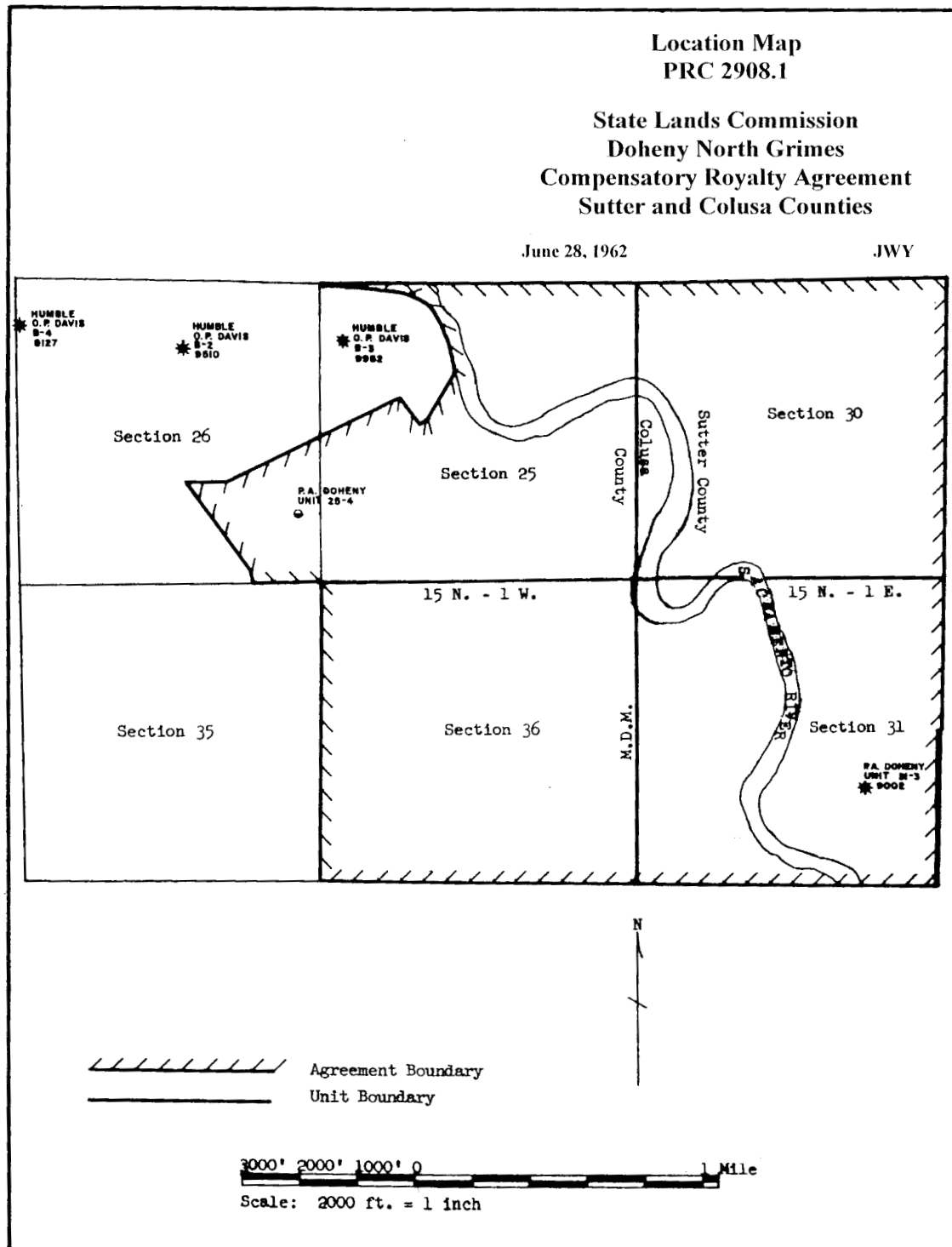
This Line Well Agreement is dated _____, but effective for all purposes on _____.

ROYALTY OWNERS

WORKING INTEREST OWNERS

EXHIBIT B

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